

U.S. Senate Republican Policy Committee
Larry E. Craig, Chairman Jade West, Staff Director
Legislative Notice

No. 67

July 10, 2000

S. 2839 – Marriage Tax Relief Reconciliation Act of 2000

Calendar No. 663

Reported by the Senate Committee on Finance on July 5, 2000, by a party-line vote of 10-5.
S. Rept. 106-329; minority views filed.

NOTEWORTHY

- The Majority Leader intends to take up S. 2839, the Marriage Tax Relief Reconciliation Act on Thursday, July 13.
- Under the FY 2001 Budget Resolution adopted by Congress (H.Con.Res. 290), the Finance Committee was instructed to report legislation by July 14 and September 13 to reduce revenues over the next five years by \$150 billion. This first bill meets the requirements, affording it the procedural protections of budget reconciliations legislation [see Floor Procedure, p. 5]. The Finance and Ways & Means Committees were the sole recipients of reconciliation instructions in the Budget Resolution this year.
- Among the strict rules governing floor consideration of reconciliation legislation, the motion to proceed to the bill is not debatable, and floor debate is limited to 20 hours. It is the Majority Leader's intention to complete action on the bill by week's end.
- According to recent report by the Congressional Budget Office (CBO), almost half of all married couples pay higher taxes due to their marital status. On average, this "marriage penalty" costs a married couple an additional \$1,500 in taxes each year. Cumulatively, the marriage penalty increases taxes on affected couples by \$32 billion per year.
- Fully phased-in, S. 2839 reduces the tax penalty shouldered by married couples and provides marriage tax relief by increasing their standard deduction, expanding the 15-percent and 28-percent tax brackets, expanding the Earned Income Credit (EIC), and exempting family tax credits from the individual Alternative Minimum Tax.
- S. 2839 is nearly identical to S. 2346, reported by the Finance Committee in April. That bill failed to overcome a filibuster conducted by Senate Democrats.

HIGHLIGHTS

The Marriage Tax Relief Reconciliation Act of 2000 is a centerpiece of Senate Republicans' efforts to reduce the tax overpayment by America's working families. Not only does it reduce families' tax burden, it eliminates one of the most egregious examples of unfairness and complexity in the tax code today. It accomplishes this within the context of fiscal discipline and preserving the Social Security surplus.

S. 2839 is identical to S. 2346, the Marriage Tax Relief Act of 2000, except for a modification to satisfy the budget reconciliation rules. S. 2346 was reported to the Senate in April, but filibustered by Senate Democrats.

The reconciliation bill provides total tax relief to married couples of \$56 billion over the next five years. Combined with the other tax relief measures adopted by the Senate this year — tax relief for small employers (H.R. 833), improved health care access (H.R. 2990), and education savings accounts (S. 1134) — the total tax relief considered by the Senate falls well within the \$150 billion budgeted for tax cuts in the congressional budget resolution (H.Con.Res. 290).

To help mitigate the tax penalty incurred by many married couples, the bill makes four changes to the tax code:

Standard Deduction: The bill increases the standard deduction for married couples filing jointly to twice the standard deduction for single taxpayers. According to the Joint Committee on Taxation, this provision provides tax relief to approximately 25 million couples filing joint returns. It is effective for taxable years after December 31, 2000.

Increased Brackets: The bill expands, over a six-year period, the 15-percent and 28-percent income tax brackets for a married couple filing a joint return to twice the size of the corresponding brackets for an individual filing a single return. Fully phased-in, this provision provides relief to 21 million married couples, including 3 million senior citizens.

Earned Income Credit: The bill increases the beginning and the end of the phase-out of the Earned Income Credit for couples filing a joint return. Currently, for a couple with two or more children, the EIC begins phasing out at \$12,690 and is eliminated for couples earning more than \$31,152. Under this bill, the new range would be \$2,500 higher. The maximum increase in the EIC under this provision for an eligible couple is \$526. The provision is effective for taxable years after December 31, 2000.

Preserving Family Tax Credits: The bill permanently extends the current temporary exemption from the individual Alternative Minimum Tax (AMT) for family-related tax credits, including the \$500 per child tax credit, HOPE and Lifetime Learning credits, and dependent care credit. It is effective for taxable years after December 31, 2000.

BACKGROUND

What is the Marriage Penalty?

A marriage penalty exists when a married couple filing a joint tax return pays higher taxes than if the same couple were not married and filed as individuals. For example, a married couple where both spouses earn \$30,000 in 1999 would pay \$7,655 in federal income taxes. Two individuals earning \$30,000 each but filing single returns would pay only \$6,892 combined. The \$763 difference in tax liabilities is the marriage penalty.

According to the Congressional Budget Office, almost half of all married couples — 22 million — suffered from the marriage penalty last year. The average penalty paid by these couples was \$1,500. In the previous example, the marriage penalty was the result of 1) a higher combined standard deduction for two workers filing as singles than for married couples and 2) income tax bracket thresholds for married couples that are less than twice the threshold for single taxpayers. S. 2839 addresses both of these factors.

Growing Family Tax Burden

This effort to target tax relief at married couples comes at a time when the tax burden is near record levels. While Congress has been successful in recent years in reducing family income taxes, the total tax burden imposed on families is at near record highs.

Perhaps the best illustration of the real tax burden faced by families is to compare today's tax burden of an average family relative to its income four decades ago and today. The total tax burden for the family today is 39 percent of its income, up from just 18 percent in 1955. Federal payroll taxes and state and local taxes have literally doubled the total tax burden faced by families. As a result, the middle-income family today has *25 percent less disposable income* than had a similar family in 1955.

Earlier Attempts to Eliminate the Marriage Penalty

Legislation to address the marriage penalty has been adopted by Congress previously. In 1995, Congress adopted H.R. 2491, a comprehensive tax bill that included provisions to increase the standard deduction for married couples to offset some of the marriage penalty. President Clinton vetoed H.R. 2491 on December 6, 1995.

In 1999, Congress again acted to fix the marriage penalty. The Taxpayer Relief Act of 1999 included provisions to make the standard deduction for married couples twice the deduction for singles and to double the lowest income tax bracket for married couples compared to single taxpayers. Again, the President vetoed the legislation.

On February 10, 2000, the House again voted in support of legislation to address the marriage penalty. Adopted 268-158, H.R. 6 would 1) increase the standard deduction for married couples beginning next year to twice the deduction for single filers, 2) phase in over six years an increase in the 15-percent tax bracket for married couples to twice the bracket of single taxpayers, and 3) increase the phase-out range of the Earned Income Credit for married couples by \$2,000. On February 10, 2000, the Administration issued a statement strongly opposing H.R. 6.

H.R. 6 is pending before the Senate as unfinished business. On April 11, the Senate proceeded to the consideration of H.R. 6, but Democrats forced the filing of cloture motions on both the Senate language, and the House bill. On April 13, 2000, the Senate voted on the two cloture motions, and in both cases, they were defeated, 53-45, with all Democrats and one Republican opposing the motion. In a subsequent attempt on April 27, Senate Democrats again prevailed in preventing cloture.

BILL PROVISIONS

Section 1: Short title of the bill is “Marriage Tax Relief Reconciliation Act of 2000”.

Section 2: The bill increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual for taxable years beginning after December 31, 2000.

Section 3: The bill increases the size of the 15-percent and 28-percent income tax brackets for married couples filing joint returns to twice the size of the corresponding rate brackets for a single individual. This increase is phased in over six years.

Section 4: The bill increases the beginning and end points for phasing out the Earned Income Credit by \$2,500 for married couples filing jointly.

Section 5: The bill permanently extends the temporary exemption from the individual Alternative Minimum Tax for certain tax credits, including the dependent care credit, the child credit, the HOPE scholarship and Lifetime Learning credits, and the D.C. homebuyer’s credit. The bill also permanently repeals the AMT’s reduction of the Earned Income Credit and the refundable child credit.

FLOOR PROCEDURE

Reconciliation Procedures

Bills considered by the Senate under budget reconciliation are debated under unique procedures not afforded other legislation. Here's a quick list of the major differences:

- The motion to proceed is not debatable.
- Floor debate is limited to 20 hours, equally divided.
- Time spent on quorum calls — unless preceding a vote — is counted against the total time, but time spent voting is not.
- Debate on first-degree amendments is limited to two hours. That time must expire, or be yielded back, before a vote can take place or a second-degree amendment can be offered. Debate on second-degree amendments is limited to one hour.
- Any debatable motions or appeals of the Chair's ruling carry a one-hour time limit.
- Once the 20 hours has expired, amendments may still be offered and voted upon, but they cannot be debated.

Germaneness and the Byrd Rule

Amendments to a reconciliation bill must be germane, fully offset, and in compliance with the Byrd Rule. Otherwise a 60-vote point of order lies against them. This rule of thumb does not apply to motions to strike, which are always in order.

Under the precedents of the Senate, germaneness is a more narrow concept than a simple "relevance" test, which only considers subject matter. The following types of amendments are considered germane:

- Committee amendments resulting from a motion to recommit;
- Amendments to strike;
- Amendments to change numbers or dates; and
- Non-binding amendments limited to matters within the jurisdiction of the committee of the reported bill.

For any amendment that does not fall into one of the categories above, germaneness is determined on a case-by-case basis by the Parliamentarian. In addition to being germane, all amendments must be offset for the first year and the sum of the first five years to avoid a Budget Act point of order.

Finally, an amendment must comply with the Byrd Rule. The Byrd Rule is designed to protect reconciliation bills from being filled with amendments not related to spending and revenue matters. This rule, named after Senator Robert C. Byrd (D-WV), applies the following rules to any legislation, amendment, or conference report considered under reconciliation. Material is considered extraneous if it:

- Doesn't change outlays or revenues (unless it is a term or condition of a provision that does produce such a change);
- Increases the deficit if the committee has failed to meet its instruction;
- Is a provision from a committee which has no jurisdiction over the provision;
- Would produce changes in outlays or revenues which are incidental to the non-budgetary components of the provision;
- Creates a net outlay increase or a revenue decrease in the year following the scoring window; or
- Affects the receipts or outlays of the Social Security trust fund.

If a Byrd Rule point of order against a provision in the bill is sustained, the offending provision is stricken from the bill. A waiver of the Byrd Rule requires 60 votes. The Senate Budget Committee is required to produce a list of Byrd Rule violations in any reconciliation bill or conference report.

ADMINISTRATION POSITION

While no official statement on S. 2839 was available at press time, The Office of Management and Budget on April 11 released a Statement of Administration Policy (SAP) on S. 2346, a nearly identical bill, saying in part: "The Administration strongly opposes S. 2346. If a tax bill of this magnitude were presented to the President before a proper framework for paying down debt, strengthening Social Security and Medicare, and funding critical initiatives has been established, the President's senior advisors would not recommend that he sign it." The President claims to support marriage-penalty relief: "The Administration believes, however, that marriage penalty relief needs to be done in the right way, at the right time, and in the right framework." On February 10, 2000, the Administration issued a SAP on H.R. 6, a less generous bill than S. 2346, with similar language.

Recently the President indicated he would be willing to sign the Republican marriage penalty legislation in exchange for adoption of the Administration's proposal to create a Medicare prescription drug benefit.

COST

The Joint Committee on Taxation estimates that the bill would decrease revenues by \$4 billion in 2001 and by \$56 billion for the years 2001-2005.

OTHER VIEWS

All nine of the Finance Committee Democrats signed onto Minority Views, touting the Democrats' alternative proposal [see Possible Amendments, below]. They say in part: "Democrats believe, first of all, that if we are going to address the marriage penalty, we must do it comprehensively. The Democratic alternative would give married couples the option of calculating their tax liability as single individuals or as a couple. When fully phased in by 2002, this approach would *eliminate* the penalty for eligible couples by allowing them to choose whichever marital status is more beneficial. . . . The Democratic alternative would dedicate 100 percent of its benefits to fixing the marriage penalty problem and would not spend resources on expanding marriage bonuses. . . . We urge the Senate to consider the alternative proposed by Finance Committee Democrats" [S. Rept. 106-329, p. 20, 21; emphasis in original].

POSSIBLE AMENDMENTS

Moynihan. Democrats' marriage tax alternative: a substitute to allow married couples to file either jointly or as two single filers. [Note: During committee markup, Senator Moynihan offered this substitute, affecting only married couples with AGI below \$150,000; it failed, 9-11, on a party-line vote.]

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